

FISCAL NOTE - DRAFT

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/15/04	Z-0970.1/04

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2 by providing that members disabled in the line of duty may receive a refund of 150% of their contributions (except for contributions made to restore service credit, which are refunded at 100%).

Alternatively, such members may choose a minimum retirement allowance equal to 10 percent of their final average salary, plus an additional allowance of 2% of final average salary for each year of service beyond 5 years subject to an actuarial reduction from age 53. The additional allowance shall not result in a total monthly benefit that exceeds that of a member who has been determined by the director to be totally incapacitated.

Effective Date: 90 days after session, but retroactively applies to members who became disabled in the line of duty on or after January 1, 2001.

CURRENT SITUATION:

Currently disabled members may receive an earned benefit actuarially reduced from age 53 or a refund of contributions.

MEMBERS IMPACTED:

We estimate that all the 14,011 active members of LEOFF 2 would be affected by this bill. Our experience data, however, indicate that few would become disabled in the course of employment and, as a result, few would actually receive this enhanced benefit.

We estimate that duty-related disablements will occur at a rate of 0.085% each year.

ASSUMPTIONS:

We have assumed that duty-related disablements will occur at a rate of 0.085% each year. This assumption is based on the combined duty and non-duty disability rate in the Washington State Patrol Retirement Plan of .1% multiplied by the ratio of duty disabilities to total disabilities of 85% in LEOFF 1.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2			
<i>(Dollars in Millions)</i>			
	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$4,042	\$1	\$4,043
<i>(The Value of the Total Commitment to all Current Members)</i>			
Unfunded Actuarial Accrued Liability	NA	NA	NA
<i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>			
Unfunded Liability (PBO)	\$(709)	\$1	\$(708)
<i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i>			
Increase in Contribution Rates:			
Employee		.01%	
Employer		.01%	
State		.00%	

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):

2004-2005

State:

General Fund	\$0.0
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Non-General Fund	<u>0.0</u>
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Total State	\$0.0
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Local Government	\$0.1
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Total Employer	\$0.1
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Total Employee	\$0.1
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2005-2007

State:

General Fund	\$0.0
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Non-General Fund	<u>0.0</u>
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Total State	\$0.0
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Local Government	\$0.2
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Total Employer	\$0.2
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Total Employee	\$0.2
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2004-2029

State:

General Fund	\$0.0
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Non-General Fund	<u>0.0</u>
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Total State	\$0.0
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Local Government	\$6.0
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Total Employer	\$6.0
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Total Employee	\$6.0
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STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) .
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in the body of this fiscal note above not include the following: None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.